

July 3, 2018

HONORABLE MAYOR AND CITY COUNCIL
City of Long Beach
California

SUBJECT: Fiscal Year 2019 Proposed Budget

A new Long Beach is on the rise. The City currently has about \$3.5 billion in construction underway citywide, including a new \$520 million Civic Center and a world-class Main library, which are set to be completed in 2019. We are continuing to revitalize our Port with \$4 billion in construction projects, we are investing in new business and retail development, and we have 4,000 residential units permitted and on the horizon, including new affordable and supportive housing. Long Beach's recent growth has also included major investment throughout the City, a fact noted by a New York Times article earlier this year.

In recent years, Long Beach has become a destination for tourism, has launched a Fortune 500 health care company, and has fostered a supportive environment that attracts innovators in health care services, transportation, and even space travel. With unemployment at an all-time low, our continued investment in addressing homelessness with innovative programs such as the Everyone Home Long Beach Campaign, and an increasing focus on equity, the City is striving to give everyone an opportunity for economic success.

We continue to be recognized on a national level for our accomplishments including being named the most walkable city on the West Coast, one of the most bicycle friendly cities in the nation, a top 10 digital city, having a parks system that has risen to Top 21 in the country, moving from bronze to silver ranking in CityHealth's report on quality of life, and being a leader in climate change study. We have received top honor for the U.S. Conference of Mayors 2018 CommunityWINS® Grant, excellent Water Quality Grades in Heal the Bay's Annual Beach Report Card for the past seven years, and have an award-winning Long Beach College Promise. We will have the opportunity to showcase to the world our thriving community when the 2028 Summer Olympics and Paralympic Games come to Southern California with several events taking place in Long Beach.

With all these accomplishments in mind, I am proud to present a Fiscal Year 2019 (FY 19) Budget that demonstrates the City's commitment to rising together to position Long Beach to continue to be a great place to live, work, play, and learn.

A Challenge Met – A Balanced FY 19 Budget

The FY 19 General Fund Budget is structurally balanced and maintains core services, despite expenditure cost growth that outpaces normal revenue growth.

Strategic Implementation of Budget Balancing Actions

The road to a balanced FY 19 proposed budget began during the FY 18 budget development process. At that time, preliminary estimates were projecting a significant budget shortfall for FY 19. With the support of the Mayor and City Council, staff began to explore options to address the shortfall and, early in the FY 19 budget development process, staff was able to propose a pathway to achieving a balanced budget through budget balancing actions that were reviewed and approved in concept by the City Council.

The budget balancing solutions reviewed by the City Council included the use of both expected and additional Measure A structural revenue to maintain public safety operations, increased revenues from parking-related fines and citations, increases in ambulance fees, and transient occupancy tax revenue from short-term rental revenues. It was also expected that departments would be able to identify budget savings, either through efficiencies, increased revenues within their departments, or other adjustments that would have minimal or no impact on services to the public. The FY 19 budget utilizes all these budget balancing solutions presented to City Council, as well as additional adjustments such as increasing the budgeted price of oil to \$55 a barrel. These revenue and cost saving measures made it possible to resolve a preliminary \$11.6 million shortfall and achieve a balanced budget.

Impact of Voter Approved Measures

In addition to the strong budget balancing actions, the achievement of a balanced budget is in part thanks to the confidence voters had in the City with the passage of Measure A in 2016 to maintain and enhance public safety services and provide for infrastructure investments, and Measure M in June 2018 to maintain services by offsetting the impact of adverse litigation. Voters also approved Measure MA in November 2016 to allow a cannabis tax to support the cost of cannabis enforcement and other public safety, homelessness, and general City services. These voter-approved measures have had tremendous positive impact. Without them, current service levels would not have been maintained, nor would have restorations been possible.

A key focus of Measure A has been to maintain public safety operations and improve our streets, roads, and other infrastructure such as parks, libraries, and park buildings. Including the expected and additional Measure A structural revenue used to maintain public safety operations in FY 19, Measure A is currently funding 108 police officers and firefighters that would not have otherwise been supported by the City's current revenues. Measure A is also projected to have funded \$183.1 million in one-time road improvements, one-time public safety needs, and other infrastructure by 2023. In addition, Measure A has allowed restoration of services that were previously cut, including the reestablishment of Engine 8, Rescue 12, the Police South Division, and full Police Academy operations. In FY 19, with updated revenue projections, new services are proposed through Measure A and are discussed later in this message.

Measure MA has not generated much cannabis related revenue to this point, but it is expected to be very helpful in the future to support services to our residents and businesses.

Finally, Measure M, passed by the voters in June 2018, restored historical utility revenue transfers and prevented a significant reduction in services that would have otherwise occurred. The practical impact of Measure M was to retain the historical status quo of services and utility revenue transfers. Without Measure M, there would have been at least an \$8.3 million annual impact on the General Fund budget that would have had a significant adverse impact on the City's public safety operations and other services.

The combination of voter support through Measures A, MA and M and strong balancing actions have allowed the City to protect public safety services, ensure a strong public safety continuum of services, implement innovations and efficiencies in our departments, and remain a full-service city that provides a broad range of services.

The FY 19 Budget Preserves and Invests in Critical Services

Key highlights of the FY 19 Budget are presented below. A complete list is provided in Attachments C and D to the Executive Summary and also further described in the Department Chapters.

Homelessness Remains a Key Focus

Long Beach continues to be a leader among cities across southern California in its systematic approach to addressing homelessness. The City leverages multiple funding streams to implement its innovative and solution focused practices. Long Beach has seen its homeless population decline by 41 percent between 2011 and 2017 – permanently housing nearly 3,100 people since 2013 and helping develop approximately 1,700 new affordable units in the last decade, with 912 more units on their way. This success is the result of the collaborative partnerships between City departments, nonprofits, for-profit, and faith-based partners that drive local efforts and innovations.

Currently, the City is spending approximately \$10 million on addressing homelessness provided by a variety of Federal, State, and County grants, in addition to City funding. These funds are providing permanent supportive housing, transitional housing, rapid rehousing, homeless Veteran specific services, Multi-Service Center (MSC) support, along with grants and program administration. In addition, the City's interdepartmental team, a best practice model that other jurisdictions emulate, meets monthly to strategize on addressing homeless impacts.

The FY 19 budget continues existing services and implements enhancements for homelessness:

- Four Quality of Life Police Officers and up to one Detective (two Police Officers for street outreach funded from Measure A, and two Police Officers and up to one

Detective dedicated to the Blue Line, pending LA Metro approval). There will now be six Quality of Life Police Officers with two dedicated to the Metro Blue Line.

- A Fire HEART team to benefit street outreach (two additional Firefighters) – funded from Measure A. There will now be two HEART teams.
- A new Waste Operations Supervisor to support Clean Team homeless encampment clean-ups and other rapid response activities.
- \$255,000 of General Fund one-time funding for Proactive Homeless Initiative to continue to support the activities of the City's Interdepartmental Work Group, including rapid response, clean-ups, and outreach.

The City will also benefit \$2.6 million from a County Measure H grant award to implement Homeless Initiative strategies adopted by the County Board of Supervisors to combat homelessness in Los Angeles County. Additionally, in 2018 the Health Department successfully applied and was awarded \$3.4 million in capital funding for a year-round homeless shelter. The City is also slated to potentially receive \$12.3 million in one-time funds from the State as part of the State Homeless Emergency Aid Program for prevention, criminal justice diversion to homeless individuals with mental health needs, and emergency aid.

The City will leverage these resources as it takes on the newly launched Everyone Home Long Beach – an initiative that will build on the many great homeless assistance and affordable housing efforts already underway. The initiative, a collaboration of key institutions, stakeholders and residents throughout our community, will propose efforts to realign the already developed comprehensive and multi-faceted plan to prevent people from falling into homelessness and to build robust programs so homelessness in Long Beach is rare and brief when it does occur.

Public Safety Remains a Top Priority

Providing a safe community to live in is one of Long Beach's highest priorities. This budget continues to utilize Measure A funds consistent with City Council's policy direction on its use, implements organizational and revenue generating efficiencies, and invests General Fund one-time funds for innovative and required investments.

Measure A plays a central role in maintaining public safety services. For the FY 19 budget, 108 police officers and firefighters are supported by Measure A and 35 police officers and firefighters have already been added in prior budgets. Restorations and enhancements include: reestablishment of the South Police Division (8 sworn Police positions, 2 civilian positions); Fire Engine 8 (12 sworn Fire positions); full reinstatement of Police Academy operations (9 sworn Police positions); and Paramedic Rescue 12 (6 sworn fire positions). The FY 19 budget proposes four additional sworn positions from Measure A for new services to help address homelessness. The proposed budget also funds other new public safety services. These Measure A funded items are listed below.

- A HEART Team in the Fire Department (two sworn Firefighter/paramedic positions) and Quality of Life Police Officers in the Police Department (two sworn Police positions). These new operations were also mentioned previously under the Homelessness section.
- \$1.9 million in one-time funding in the Police Department for the Neighborhood Safe Streets Initiative, which uses community policing strategies to impact violent and property crime trends in the City's neighborhoods and corridors. This will fund overtime to (i) problem-solve, investigate and prosecute crime; (ii) address quality of life issues; (iii) support critical incident exercises (i.e., active shooter, hazardous incidents, school safety exercises); (iv) investigate violent and significant crimes; and, (v) funding for police overtime operations as authorized by the Chief of Police.
- \$2.1 million in one-time funding in the Police Department for a second Police Academy in FY 19, which is expected to result in additional officers over the budgeted strength levels of FY 19 upon completion of the academy.
- \$900,000 in one-time funding in the Fire Department for a second Fire Academy in FY 19, which will help maintain operations by filling vacancies caused by attrition.
- \$130,000 in one-time funding in the Fire Department for a vehicle and equipment needed for the additional HEART unit.
- \$600,000 in one-time funding for safety camera network modernization and expansion.

This budget also includes organizational and revenue generating efficiencies and other General Fund one-time investments, including the following:

- Enhancement of a homeless outreach team along the Blue Line, consisting of three sworn Police positions (two Quality of Life Police Officers and up to one Detective), pending approval by Los Angeles Metro. This enhancement was also mentioned previously under the Homelessness section.
- Transfer of 27 Airport Special Services Officers to the Police Department to integrate Airport security operations under the oversight of the Police Department.
- Enhancement of one sworn Firefighter position to assist with construction inspections, offset by revenue.
- Upgrade of Fire Department's administrative support position to manage Homeland Security and other grants; addition of Storekeeper position to ensure department is equipped with the right materials, tools, and equipment to provide services safely and effectively; and, upgrade of a civilian inspector to provide additional oversight and training in the residential inspection program.
- \$2 million in one-time funding in the Police Department Records Management System upgrade to comply with the Department of Justice mandate to implement the new national incident-based crime reporting system.

- \$100,000 in one-time funding in the Police Department for body-worn camera redaction services.
- \$100,000 in one-time funding for jail clinician services, a program of the Police Department and the Office of Civic Innovation (i-Team) Justice Lab partnership. Funding will support one full-year of mental health clinician services offered to inmates of the Police Department jail, in an effort to reduce recidivism, re-arrest rates, and strain on Police and City services.
- A pilot program creating the Community Services Officer classification that will utilize a civilian classification to respond to non-emergency (Priority 3) calls to allow Police Officers to focus on immediate crime intervention and enforcement.

Funding is Dedicated for Critical Infrastructure and Other Critical Needs

The City continues to be forward-thinking in maximizing all the resources we can to invest in infrastructure and other critical needs now to realize the most cost effective returns for the future. The FY 19 budget proposes a robust Capital Improvement Program (CIP) bolstered by Measure A funds, as well as strategic investments into other critical citywide needs.

The City's FY 19 Capital Improvement Program is \$96.8 million from various sources excluding the Harbor Department, supplemented by \$24.0 million from Measure A funds dedicated to City's aging and deteriorating infrastructure, for a total of \$120.8 million. A general listing of the investment programs is noted below. Detailed information on all proposed CIP projects, including Airport and Harbor projects, is available in the FY 19 Proposed Capital Improvement Program chapter. The detailed listing of the Measure A infrastructure projects is also available in Attachment A of the Executive Summary. Attachment A also includes the recommended uses of all unallocated Measure A funds, including funds from improved revenue projections, expected to be realized between FY 19 and FY 23.

- **Mobility** – Mobility improvements include street repair, street and intersection widening, traffic signal system expansion and upgrades, transit improvements, replacement parking and striping, neighborhood traffic management, and bike lanes. In FY 19, there is \$51.3 million in new funding. Measure A funds make up \$8.5 million of this, allocating \$2.5 million for residential street repair, \$1.8 million for alley improvements citywide, \$4 million for sidewalk and ADA curb cut improvements, and \$150,000 for bridge improvements. The remaining funds are made up of \$30.8 million from other local, state and federal resources for street rehabilitation, and \$12 million for other mobility projects not related to street and alley repair, including \$300,000 for Bluff Park Lighting and \$250,000 for Catalina Landing wayfinding signage.
- **Parks** – Park improvements work to rehabilitate existing park assets and irrigation. In FY 19, \$5.4 million in Measure A funds has been budgeted for Parks CIP projects. This includes \$357,500 for irrigation upgrades, \$300,000 for Game Court Rehabilitation, \$1.5 million for Park Acquisition and development, \$495,000 for tree

trimming, \$990,000 for restroom rehabilitation, and \$1.75 million for El Dorado Park rehabilitation.

- **Public Facilities** – Facility improvements implements critical repairs required to sustain the integrity of hundreds of facilities throughout the City. The FY 19 budget is \$16 million, of which \$8.2 million is from Measure A, \$3 million from AB 32 funds, \$1 million in Tidelands, and \$3.8 million from General Capital. This includes \$11.3 million for general City building refurbishment, \$1.1 million for Fire facilities modernization, \$1.7 million for facility assessments, \$250,000 for citywide reroofing, \$1 million for Convention Center improvements, and \$650,000 for Civic Center improvements.
- **Beaches and Marinas** – Beaches and Marina improvements invest into these City operated and maintained resources. The FY 19 budget totals \$2.5 million in new Tidelands funding. This funding includes \$750,000 for Seawalls Phase 2, \$250,000 for Lifeguard Facilities and Towers, \$500,000 Alamitos Concession and Public Restroom Facility Rehabilitation, \$750,000 for Beach Parking Lot Rehabilitation, and \$250,000 for Tidelands Critical Facility Repairs.
- **Utilities** – Utility improvements support repairs to the City’s water, sewer, gas, and stormwater systems. The total FY 19 budget totals \$41.6 million. Of this amount, \$2.3 million is proposed for Stormwater/Environmental compliance with \$1.9 million coming from Measure A funding for storm drain repair and certification. The remaining \$39.3 million is comprised of funding from the City’s Gas, Water and Sewer funds, in addition to other State and local funding.
- **Airport** – Improvements at the Long Beach Airport are supported by the Airport Fund in the amount of \$4.1 million. These investments include \$2 million for Terminal area improvements, \$100,000 for gateway signage, and \$2 million in pavement rehabilitation.

In addition to the Capital Improvement Program, the City is investing in other critical needs that are core to maintaining the viability of City’s technology infrastructure and safety/quality of life in the community. Some highlights are listed below.

- The addition of seven positions as part of the technology initiative to implement and maintain the critical technology needs with funding already set aside. A full description of the technology critical needs investment in FY 19 is available in Attachment E of the Executive Summary. In addition, nine positions were added as part of the FY 19 proposed budget process, essential to maintain core operations and to continue in planning and implementing other significant department projects, such as LB COAST and radio needs, which combined with the \$67 million in critical technology, equal over \$100 million.
- \$1 million additional for the Parks landscape contract (\$900,000 in General Fund) – funding required under a new competitively bid contract to maintain current scope of landscape services across the City’s 170 parks.

- \$1.2 million in one-time General Fund funding for Parks water – funding to be more in line with plant watering requirements and to combat safety issues such as urban tree failures.
- \$1 million in one-time Tidelands Fund funding for in-water storm debris collection system – this will allow the Marine Bureau in the Parks, Recreation and Marine Department to remove three times as much debris from the water before it reaches the beaches than is currently possible.
- The addition of 5.45 general maintenance positions in the Parks, Recreation and Marine Department to support the significant work required to address deferred maintenance at parks' facilities and to secure freestanding restrooms and mini parks.

Economic Development Remains an Important Priority

Investing in economic development in Long Beach is a key part of our strategy to grow the City's revenue base and help balance future budgets. To this end, the FY 19 budget includes organizational improvements to help better manage and deliver services and also aligns staffing to meet service demands.

- The addition of a Senior Structural Engineer and a Planner V to facilitate interdepartmental approvals for new high-rise development applications and to provide specialized services for new high-rise development applications, respectively.
- The addition of a Plumbing Plan Checker II and a Permit Technician II to improve plan check turnaround times and decrease customer wait times at the Permit Counter.
- The addition of an Assistant Administrative Analyst II and an Administrative Analyst II position in the Planning Bureau to improve community engagement and public messaging around development and land use issues throughout the City.
- The addition of a Combination Building and Safety Inspector and a Senior Combination Building Inspector to address increased demand and maintain inspection response times.
- \$295,000 of one-time funding to support the General Plan Land Use Element and Urban Design Element, and consultant services to prepare zoning code amendments.
- Creation of a new Administrative & Financial Services Division in the Economic Development Department to consolidate financial services, human resources, communications, and research work, to better support the department in accomplishing its mission to provide economic opportunities for workers, investors, and entrepreneurs.

In FY 19, work will continue to be done on implementing the recommendations of the 10-year Blueprint for Economic Development approved by City Council to achieve the vision

of Long Beach as “the City of opportunity for workers, investors, and entrepreneurs,” with a particular focus on economic opportunities in low-income communities.

Greater Organizational Efficiencies and Service Delivery Models Implemented

The City has a history of pursuing innovative solutions to provide the best services for its residents and businesses. The FY 19 Proposed Budget includes the following innovative approaches below to achieve greater operational efficiencies and service delivery. A full description of all the initiatives currently underway can be found in the Innovation and Efficiency section of the Budget Book.

- ***Seven-day library coverage citywide*** – The Library Department will be shifting its daily schedule for library branches, resulting in open hours across the City every day at no net new cost. This plan shifts open days at five to six libraries to Sunday through Thursday, with the remaining locations retaining the existing schedule of Tuesday through Saturday. This new approach would create a permanent staffing model for Sundays and Mondays, where currently Sundays are only funded for a half-day at 4 locations on a one-time basis and Mondays currently are closed system wide.
- ***Establish a Project Management Bureau in Public Works*** – For better management and oversight of critical citywide projects, the current Project Management Division in the Engineering Bureau will be converted to the Project Management Bureau. Positions will be reallocated at no net new General Fund costs.
- ***Generate savings for capital projects by replacing contracted staff costs with City positions in Public Works*** – The conversion of consultant costs to 15 full-time positions will increase production by eliminating time associated with training consultants, contribute to a strong succession plan to retain institutional knowledge, and generate cost savings that can be invested back into the projects.
- ***Add a Waste Operations Supervisor in Public Works*** – In the past couple of years, four clean-teams have been added to the budget to engage in proactive beautification and trash clean-up throughout the City. This position will oversee the Clean Team program and be the main contact for clean-up events, homeless encampment clean-ups, illegal dumping, special clean-up requests, field activities and staff training. This position will be offset by the Refuse Rate increase anticipated to be implemented in FY 19.
- ***Establish a Community Engagement and Partnership Bureau in Parks, Recreation and Marine*** – The new Bureau will consolidate some existing divisions to allow the Department to pursue more community sponsorships, partnerships and grants, and develop a strategic plan for the ongoing funding and sustainability of park programs. Approximately \$38,000 in one-time funding is also included for a pilot volunteer coordinator program position, to recruit, coordinate, assign, and monitor volunteers.
- ***Evaluate and implement operational efficiencies in the Animal Care Licensing Services in Parks, Recreation and Marine*** – During FY 19, staff will

review the potential of contracting our animal care licensing services to determine if this option can improve revenues, lower costs and allow animal care to concentrate more on direct provision of animal care services.

- **Add one-time funding for an Animal Adoption pilot program in Parks, Recreation and Marine** – One-time funding included for a pilot program to add staffing resources to assist with animal adoptions.
- **Establish a City Health Officer Bureau in Health and Human Services** – The City Health Officer and Public Health Emergency Management Division will be reassigned to this new Bureau to allow the City Health Officer to provide the medical expertise and leadership needed in the areas of communicable disease control, public health regulations enforcement, public health emergency management preparedness, environmental health, clinical services, and public health program development.
- **Establish a new funding model for the i-Team and rename as the Office of Civic Innovation** – With the commencement of the three-year Bloomberg Philanthropies Innovation Team Grant, the i-Team will be renamed the Office of Civic Innovation and will be funded by various partner departments as they continue to function as in-house innovation consultants for key new initiatives, such as the Justice Lab with the Police Department.
- **Consolidate Office of Sustainability in City Manager's Office** – Sustainability efforts currently performed by positions in several different departments will be consolidated under the City Manager's Office to streamline the work and reporting under one department and to make sustainability programs more efficient.
- **Right-sizing of Cannabis program expenses** – A right-sizing of departmental cannabis oversight and enforcement programs to adjust to the current pace of medical cannabis business openings.
- **Labor Compliance Division enhancements in Financial Management** – Enhancement of services to better ensure regulatory compliance.

Investments in Arts, Culture, and Communications

High hotel occupancy tax revenues have boosted the Special Advertising and Promotions Fund, allowing the City to make strategic investments into arts, culture, and tourism. Highlights are listed below.

- **Long Beach Museum of Art** – Increase the City's budgetary contribution by \$50,000, bringing the total support to \$444,000.
- **Long Beach Arts Council** – Increase the City's budgetary contribution by \$25,000, bringing the total structural support to \$429,300. In addition, add \$50,000 in one-time funding subject to a one-for-one match to assist with fundraising efforts, bringing the total FY 19 support to \$479,300.

- **POW! WOW! Mural Program** – \$50,000 in one-time funding to support mural artists.
- **Convention and Visitors Bureau (CVB)** – Increase the City’s budgetary contribution by \$250,000, to promote tourism of the City as a world class destination, bringing the total support to \$4,958,676.
- **Wayfinding Signs and Public Art** – \$750,000 in one-time funding for wayfinding signage and art on public buildings throughout the City. The Tidelands Fund is also supporting one-time funding of \$250,000 for wayfinding signage in the Tidelands Area. Additionally, the Airport Fund is also supporting a one-time investment of another \$100,000 for wayfinding signage at the Airport.
- **Beach Street Event** – \$250,000 in one-time funding for one Beach Street event to help improve the City’s livability and bikeability efforts in the City, and also to serve as an economic tool by exposing residents and visitors to our local businesses.
- **Position Changes to Support Public Affairs** – Upgrade the Manager of Intergovernmental Affairs to Manager of Communications and Government Affairs, which will have oversight of City communications. Add a Special Projects Officer to the Public Affairs Office in City Manager’s Office to help manage the increased demands for communications activities and projects.

Continuing Recognition of the Importance of Social Needs

The FY 19 budget recognizes the programmatic additions that the City Council has made over the past few years and allots for the following solutions to continue funding these and new initiatives.

- **Office of Equity** – This Office was originally funded through a Public Health Associate III position using grant funding. The grant funds have ended and the FY 19 budget proposes to structurally fund the Office of Equity through a permanent Special Projects Officer position funded from the General Fund.
- **Be S.A.F.E.** – \$192,000 in one-time funding to continue the current locations of the Be SAFE program at King, Silverado, Admiral Kidd, Scherer, Houghton, Drake, Seaside, Bixby, Ramona, Orizaba, and Pan American Parks.
- **Youth and Children Support** – \$200,000 in one-time funding to support programs or activities for youth well-being through a Participatory Budgeting process.
- **Language Access Plan (LAP) Implementation** – \$80,000 in one-time funding for additional documents to be included in the program.
- **Grant Funding Replacements** - The FY 19 budget also funds costs previously funded from grants that have now been discontinued, including a position in the Office of Equity in the Health Department now funded by the General Fund, the restructured Office of Civic Innovation (i-Team) in the City Manager’s Office previously funded by the Bloomberg grant and now funded from charges to other

departments, and a position in the Mayor's Office also previously funded by the Bloomberg grant and now funded by the General Fund.

Strong Fiscal Management to Address Future Challenges

Despite a robust economy, Long Beach, along with almost all other general purpose governments, has significant challenges to meet service needs in the future. The challenges Long Beach faces include a shortage of ongoing resources to maintain and improve operations, as well as unfunded employee benefits and insurance and deferred maintenance. To date, strong fiscal management, cost containment and efficiencies, pension reform, RDA dissolution, Measure A, Measure MA, and Measure M have allowed the City to maintain and even restore and enhance services. The proposed FY 19 budget has been balanced, but it was a challenge to do so.

A projection of the General Fund initial surplus or shortfall (before balancing actions) for at least the next two years is a part of the City budget and fiscal planning process. Key assumptions factored into these projections include:

- A continued strong economy, but no specific factoring of economic growth and new development.
- FY 19 service levels are maintained with no new or expanded services.
- Civic Center costs are as originally anticipated with occupancy in July 2019.
- No major change in cannabis revenue and cost balance.
- Oil prices remain stable.

Employee wages are the major part of any City's budget. Therefore, in projecting a future surplus or shortfall, the assumption for wage costs is critical. Current employee contracts end at the end of either FY 18 or FY 19 and are expected to be open for negotiation for FY 20 and FY 21. Historically, over a long time-period, Long Beach employees have typically received wage increases close to the cost of living, although for specific years raises might have been higher or lower than the cost of living. To account for both the impact and uncertainty of negotiated raises, two different projections are done for the out-years – one that assumes wage increases based on projected cost of living and one that does not.

The projection (shown in the table below) shows a potential \$9.3 million shortfall for FY 20 and \$0.8 million surplus for FY 21, assuming the FY 20 shortfall is structurally resolved first and employees receive no wage increases. If employees receive a cost of living increase each year, that will add approximately \$8.3 to \$8.6 million annually and result in a shortfall of \$17.6 million in FY 20 and \$7.8 million in FY 21. This is only an example and does not necessarily have any relationship to what may actually occur; other wage increases will result in different shortfalls.

It is important to note these are early projections and City revenues are sensitive to the economy and changing business environment. Expenditures are also projections and unexpected factors can impact them. Therefore, these figures are likely to change as more information becomes available.

General Fund Surplus/(Shortfall) Projection for FY 19 through FY 21

(Surplus (Shortfall)) \$ in millions	FY 19 Budget	FY 20 Projection	FY 21 Projection	Cumulative
No wage increases assumed	0.0	(9.3)	0.8	(8.5)
Cost of living wage increases included	0.0	(17.6)	(7.8)	(25.4)

Our good economy and economic development is helping us provide services and it is very possible that they will generate more revenues than projected. However, the potential size of the projected shortfalls over the next two years indicate it is unlikely that the shortfall will be eliminated solely by a good economy, economic development, even combined with our continual improvements in efficiency. Balancing the budget in those years will likely require some combination of actions such as reduced expenditures and adjustments to revenues. If services are increased in some areas for FY 20 or FY 21 using increased revenues or other existing sources, then less revenues may be available to make up the projected shortfall in existing services.

Developing solutions and approaches for the projected shortfalls as well as addressing any need for increased services will be a City Manager priority in FY 19.

Additional details on this and the future challenges are available in the Executive Summary Section of the budget.

Unfunded High Priority Needs and Liabilities

While the proposed FY 19 budget is a strong budget and funds many exciting and important initiatives, there still remain high priority needs that have been left unfunded, as well as long-term unfunded liabilities. These issues are similar to those being faced by many cities and governments. An overview of these unfunded needs and liabilities are provided in Attachment F of the Executive Summary. A few examples are listed below. This list contains general examples – it is not in priority order and is not a comprehensive survey of needs citywide. Any dollar amounts are also estimates and subject to change.

- The City is not fully funding the implicit cost of maintenance for some of its buildings. This allows buildings to deteriorate and/or not be in full service.
- The City is not able to adequately fund the maintenance of parks, recreation facilities, and athletic playing fields.

- The City's budget for watering our parks and medians is still structurally underfunded by an estimated \$2 million, although \$1.2 million in one-time funds have been identified for FY 19.
- There are unfunded one-time needs for the removal of critically injured, diseased, or dead trees starting at an estimated cost of \$1.8 million and ranging up to \$7.2 million.
- While significant improvements have been made in funding for streets and sidewalks, the cost of maintenance has not been fully funded.
- Although much investment and improvement is currently occurring with the \$67 million in critical technology needs, there are still unfunded technology system and infrastructure needs remaining that have yet to be addressed.
- The subsidy for retiree health insurance (an "other post-employment benefit") is not fully funded for the FY 19 cost. This increases the future unfunded liability for this item.

If any additional one-time funds become available for FY 19, or during FY 19, it is strongly recommended that any unfunded high priority needs and/or unfunded liabilities be reviewed and prioritized for additional funding.

History of Strong Fiscal Management

There are future budget challenges that the City will face, but I am optimistic that we will address these issues as we have in the past. One of my top priorities is to be proactively looking towards solutions for FY 20 and FY 21.

The City has a long-term approach to support economic development and redevelopment, neighborhood maintenance and improvement, tourism, and support for businesses as well as maintaining a balanced approach to services. This approach is anticipated to help the City continue to increase its tax base and is a key to continuing to provide good services to residents, businesses and visitors. For years, the Mayor and City Council have provided strong support for good financial management and running a lean and constantly improving organization. Independent reviews by bond rating agencies have consistently confirmed the strong financial management.

We will continue to work diligently to address these issues through continued focus on economic development, adherence to City Council's financial policies of maintaining reserves, maintaining a structurally balanced budget, developing a long-range financial plan, and other key financial policies of the City Council.

Conclusion

This budget reflects the great support of Long Beach residents and businesses and the collaboration of the Mayor, City Council, and City staff. Creative and innovative solutions were proactively pursued early on to resolve the preliminary shortfall, and strong budget

balancing actions have allowed us to maintain all our key services and contribute to strategic investments.

The Executive Summary, immediately following this transmittal letter, provides a summary of the budget, its use of Measure A (Attachment A), a list of strategic General Fund one-time investments (Attachment B), FY 19 Summary of Significant Changes (Attachments C and D), Impact of Critical Technology Needs on Budget Summary (Attachment E), and Unfunded High-Priority Needs and Liabilities (Attachment F). The balance of the proposed budget document provides details and additional explanations for the General Fund, as well as all other funds.

My appreciation to the Mayor and City Council for your fiscally prudent leadership and to staff and the Departments for all of the difficult work required to develop and submit this budget, particularly in light of the uncertainty of the outcome of Measure M during the development process. I would also like to thank the City Attorney, City Prosecutor, City Auditor, City Clerk, Civil Service Executive Director, Harbor Department Executive Director, and Water Department General Manager for their continued cooperation and support.

We look forward to working with you as you consider this proposed budget, which accomplishes many things and as we move forward to address the challenges facing us in the future.

Respectfully submitted,

A handwritten signature in blue ink that reads "P West". The signature is written in a cursive, slightly stylized font.

Patrick H. West
City Manager

